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FISCAL IMPACT STATEMENT

LS 6594 | **NOTE PREPARED:** Dec 8, 2004
BILL NUMBER: HB 1422 | **BILL AMENDED:**

SUBJECT: Hoosier Headquarters Relocation Credit.

FIRST AUTHOR: Rep. Turner | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides that a business that relocates its corporate headquarters to a location in Indiana is entitled to a credit against its state tax liability equal to 50% of the costs incurred in relocating the headquarters.

Effective Date: January 1, 2006.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. In addition, the bill requires the DOR to make determinations regarding expenditures reportedly made due to a corporate headquarters relocation. The bill requires the DOR to determine whether expenditures made by a taxpayer were the result of the relocation of a corporate headquarters and whether the expenditures would have occurred regardless of the headquarters relocation. The expenses relating to these requirements presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The Headquarters Relocation Tax Credit could potentially reduce revenue from the Sales and Use Tax, Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax when a business undertakes an eligible headquarters relocation to Indiana. The potential fiscal impact of this credit is indeterminable. Any resultant fiscal impact could commence in FY 2007 depending upon when qualified relocations might occur.

Background: The bill establishes a nonrefundable tax credit against a taxpayer's Sales and Use Tax, AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for relocating a corporate headquarters to

Indiana. The credit is equal to 50% of the taxpayer's relocation costs in a given tax year. The net revenue impact of the Headquarters Relocation Tax Credit depends on the extent that tax collections on headquarters employees and other taxable activities attributable to the headquarters is less than or exceeds the credits claimed by the business. However, if the headquarters relocation would have occurred in the absence of the tax credit, the net impact would be the total credits claimed by the business. Data analysis by researchers at the Chicago Federal Reserve Bank indicates that two corporate headquarters moved into the Indianapolis metropolitan statistical area from 1990 to 2000. This data analysis, however, was not performed on a statewide basis or on any other distinct metropolitan area in Indiana. In addition, the analysis focused only on public companies with worldwide employment of at least 2,500.

To qualify for the tax credit, the taxpayer must relocate the corporate headquarters of an "eligible business from a location outside of Indiana to an Indiana location. The corporate headquarters building or buildings must: (1) contain the principal offices of the principal executive officers of the business; and (2) at least 250 employees. An "eligible business must: (1) be engaged in either interstate or intrastate commerce; (2) maintain a corporate headquarters at a location outside Indiana; (3) have not previously maintained a corporate headquarters at a location in Indiana; (4) have had annual worldwide revenues of at least $1 B in the year previous to the year of application for the tax credit; and (5) commit contractually to relocating its corporate headquarters to Indiana.

The credit is not refundable. Credits in excess of the taxpayer's state tax liability may be carried over for nine succeeding years. The taxpayer is not allowed to carry back any unused credit. In addition, the credit is not allowed to reduce a qualifying taxpayer's state tax liability below the amount paid by the taxpayer in the tax year immediately preceding the year the taxpayer first incurred relocation costs. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

The credit is effective beginning in tax year 2006. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: *Where the Headquarters are - Evidence from Large Public Companies 1990-2000.* Federal Reserve Bank of Chicago, Working Paper 2003-35.

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